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Security and Insecurity of Home Ownership: Germany and the Netherlands¹

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ABSTRACT *This paper examines the experience of households in two adjacent countries, Germany and the Netherlands, both of which have relatively modest levels of home ownership but significantly different housing systems. Population growth is slowing down in Germany, while it is still increasing in the Netherlands. German house prices are stable while Dutch prices have been rising considerably for 25 years now.*

The central question is whether people in these two different contexts, which are both faced with globalization and social security reforms, have similar perceptions of the securities and insecurities of home ownership. The paper is based on institutional studies and 20 interviews among home owners and ten interviews among tenants in both countries. The central issues here are the perceptions of (in)security and equity.

The paper concludes that in both countries home ownership is perceived as a nest-egg and a 'pension in stone'. However, it is also associated with insecurity. In Germany many households saw house prices as a source of insecurity. This can be explained by strong fluctuations in house prices in Germany and the fear that the declining population might adversely affect the situation and hence the 'pension in stone'. In the Netherlands a policy change—particularly a change in tax relief for mortgage-holders—was the main worry.

KEY WORDS: Home ownership, (in)security, housing equity, household perceptions

Introduction

Housing occupies a unique place in people's lives. As the reference point of daily life, it is the prime reflection of individual desires, hopes, needs and status. It protects privacy and self-determination, yet it is strongly affected by political, economic and social developments. Housing issues are located at the intersection of citizen preferences and government targets. However, both citizen preferences and government targets

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are in turn touched and moulded by a fundamental development currently taking place. Globalization is impacting on the nation state and its inhabitants in numerous ways. National competitiveness needs to be maintained and enhanced, obligations of the European monetary union must be fulfilled, and international challenges posed by closer economic integration must be met.

Germany and the Netherlands both need to address these challenges. They are attempting to do so by, among other things, reducing public spending and transferring responsibilities from the public to the private sector and hence to the individual. Until now, the social benefits in each country have been relatively generous compared with their European neighbours (EUROSTAT, 2005); yet the citizens in both countries are facing a growing personal responsibility for funding eventualities of healthcare, unemployment, aging, etc. This is where home ownership might offer a clear advantage and a sense of security: home owners can extract equity from their home to finance consumption when times get hard. However, home ownership can also be a source of higher risk and insecurity: the high financial commitment might turn up the pressure if the labour market becomes unstable (Behring & Helbrecht, 2002; Doling & Ford, 2003; Boelhouver *et al.*, 2005). As the home ownership rate grows in most European countries (Doling & Elsinga, 2006), the securities and insecurities associated with home ownership become more important to households and society as a whole (Smith, 2006).

The Netherlands and Germany are neighbouring countries which are both facing changes in the welfare system and have – by European standards at least – a low home ownership rate. However, their histories, markets, traditions and policies exhibit clear differences. What roles do these differences play in how households perceive the (in)securities of home ownership? What financial strategies do households develop in the context of home ownership? How do Dutch and German households use home ownership as a vehicle for creating (personal, economic) security in their lives? These questions bring us to the central question in this paper: do the German and Dutch interviewees have different perceptions of the (in)securities of home ownership?

Research Questions and Method

To answer this central question, we shall take a closer look at three related questions:

1. What trends in the labour, housing and mortgage markets and the social security and housing policy are likely to have the deepest impact on people's financial security and how do they differ between Germany and the Netherlands?
2. How does home ownership relate to perceptions of financial (in)security? Where do German and Dutch interviewees perceive differences and how can these be explained?
3. How do households perceive (in)securities of home ownership? How do the German and Dutch interviewees differ in their perceptions and how can these be explained?

This paper is based on a comparative EU project on 'Origins of security and insecurity: the interplay of housing systems with jobs, household structures, finance and social security' (OSIS). The project included eight countries (Belgium, Germany, Great Britain, Hungary, Finland, the Netherlands, Portugal and Sweden). The results discussed here come from the studies on Germany and the Netherlands.

The qualitative interviews were carried out in all eight countries. A semi-structured topic guide was used. Key terms such as 'risk' and 'security' were embedded in the guide. Most questions were open in style with a number of follow-on questions; however on a few occasions quite explicit 'prompts' were also included for key questions.

Each country was asked to select one local housing/labour market, which had experienced average economic growth in the recent past. The aim was to avoid very depressed and unusually buoyant areas. In Germany the interviews were held in Hanover (and partly in Bremen), while in the Netherlands they were held in Haarlem. In each area, 20 home owners and ten tenants were selected. The interviews were held in the spring and summer of 2005.

It should be mentioned that the analysis is based on 60 interviews in particular areas in Germany and the Netherlands and that the sample is not representative. We did not focus on quantities (how many) but on quality (why and how). We wanted to know why the interviewees perceived matters as they did, acted as they did, what the reasoning was behind their behaviour and decisions, and how these related to the context. To be able to perform a meaningful comparative analysis, similar selection quotas were set in each country that reflected the substantive area of interest: home owners and tenants, marginal and non-marginal, age, household structure (Quilgars *et al.*, 2005).

In the next part of the paper we shall expatiate on the institutional contexts in the two countries. We shall focus on demographic trends, developments in the labour and housing markets, social security changes, policy shifts, and similarities and differences in mortgage markets. We shall then present the findings from the interviews. Finally, we shall draw some conclusions about the differences in the responses of the German and the Dutch interviewees and compare them with institutional differences and suggest probable relationships.

Contemporary Social and Economic Changes in the Netherlands and Germany

The Dutch and German population are facing growing uncertainty about their future household income. This is due not only to changes in the national labour markets but also to demographic trends and national policy reforms on the welfare state. The future economic situation of households and its predictability – usually seen as an important precondition for home ownership – have become uncertain and confusing. Despite some similar trends in Germany and the Netherlands, institutional differences are leading to different consequences on the housing market.

Demographic Trends

The housing market is heavily influenced by demographic as well as household trends. The German population, which had grown slightly since reunification, peaked at 82.5 million in 2003 (Eurostat, 2005). Since then, the population has been gradually decreasing, with a clear decline expected sometime after 2013. The population of the Netherlands, on the other hand, has continued to grow and stood at 16.3 million in 2005 (Eurostat, 2005). Despite the differences, experts expect substantial growth in the number of households in both countries (*BBR*, 2004, p. 5; Boelhouwer & Neuteboom 2003, p. 125) largely as a result of higher rates of household dissolution and a steady rise in single households. This trend will push up the demand for housing in the medium term but not in the long term. The past years have already been dominated by an increasing demand for housing, which has necessitated adaptations in the housing markets in terms of quality as well as quantity. However, in Germany, in particular, there are huge differences in the demand for housing across the regions, especially between the former socialist German Democratic Republic and parts of former West Germany. While the population in the West grew by 0.5 per cent annually between 1991 and 2000, it was shrinking in the East at exactly the same rate (*BBR*, 2004).

The general decline in the population will be accompanied by an increase in aging (Dickmann, 2004; OECD, 2005a, 2005b); both developments are a direct result of the continued decline in the birth rates across Europe (Eurostat, 2005). As the pension and welfare system and the spatial lay-out and infrastructures have been traditionally planned on the basis of population growth, this development has profound implications for the near future and means that welfare and infrastructure will have to be adapted to the changed social conditions.

Labour Market

The labour market in both countries is primarily influenced by increasing flexibility and a slowdown in economic growth. Since 2001, the economic situation in the Netherlands has deteriorated: unemployment has been rising and economic growth has lagged behind the rest of Europe. Still, the unemployment rate, at 4.7 per cent, is far below the German rate of 9.5 per cent (Eurostat, 2005). In contrast with Germany, where no short-term recovery is expected, the Netherlands anticipates the unemployment rate to fall in 2006 (Elsinga & Toussaint, 2005a). As sweeping reforms come into effect, which will hit not only the labour market but also social benefits and health-care, it is expected that the Netherlands will improve its labour market performance. Overall, the economic forecasts are optimistic (OECD, 2005a).

In contrast, the German labour market performance is considered precarious (OECD, 2005b). The unemployment rate remains high. To counter this, the government passed several major reforms, which are now being phased in. One of the most important reforms is the merger between unemployment and social assistance. This

Table 1. Unemployment rate in Germany and the Netherlands according to age (in per cent)

	1994	1996	1998	2000	2002	2004	2005
Overall German rate	8.3	8.5	8.8	7.2	8.2	9.5	9.5
German rate of persons <25 years	15.6	15.6	15	10.6	14.2	15.1	15
Overall Dutch rate	6.8	6	3.8	2.8	2.8	4.6	4.7
Dutch rate of persons <25 years	10.9	11.1	7.6	5.7	5	8	8.3

Source: Eurostat (2005).

came into force at the end of 2004 and aims to reduce the long-term unemployment benefits and improve re-integration into the labour market. Due to these state-led restructuring programmes, the perceived uncertainty among the German population – and especially among the unemployed – is rather high at present. Numerous projects, such as changes to the dismissal protection laws, currently being debated by the new government, which took office in September 2005, are adding to these feelings of uncertainty.

Despite the differences in the political approach in the two countries, fundamental changes are moulding the labour market at present:

- Flexible employment conditions are gaining in importance: the percentage of temporary employees is rising all the time; for example, Germany saw an increase of 25 per cent between 1993 and 2004. Younger people are more often affected by flexible labour conditions (*Statistisches Bundesamt*, 2004, p. 42).
- Employees are less confident about job stability (Elsinga & Toussaint, 2005a). In Germany, short-term dismissal due to downsizing, a move of production to foreign countries, and a reduction in income have become potential threats to job stability.
- Young people are most at risk on the labour market; unemployment in this group is well above average (see Table 1).

Thus, the main processes on the labour market indicate a growing flexibility on the one hand and a more insecure position, especially for younger people, on the other. Early access to home ownership has therefore become rather difficult as it requires a long period of regular income.

Social Security Systems

Although the details differ, there are strong similarities between the development, standard and mode of the social security system in the Netherlands and Germany. The welfare system in both countries used to be highly regulated until now. They were seen as effective and financially self-supporting systems of social insurance. Since World War II, the social security systems had been gradually extended in both

countries. Stable health and care services, unemployment benefits and pensions made for a tight-knit system of social protection.

As a result of the demographic shift, national challenges (e.g. the reunification of Germany in 1991) and rising unemployment in the 1990s, the cost of the dense welfare system had slowly begun to outweigh the diminishing public funds. Both the Dutch and German government started to cut back gradually on social security expenditure – a process which is still continuing at a notable pace. Pensions, unemployment benefits, care and healthcare systems are all affected. As the pension scheme in both countries is based on a pay-as-you-go system, (which means that current earners pay for those who are retired), its financial capability is under extreme pressure. However, due to a multi-tiered pension scheme (Haverland, 2001, p. 311) which was introduced in the Netherlands in 1980, the Dutch are facing fewer challenges than the Germans.

The policy of the Dutch and German government is clearly heading towards more individual responsibility: so far, people in need have been financially supported by the state and therefore covered by a basic level of insurance. Recently, the regulations for claiming benefit have become stricter and co-payments have increased. For the individual, it is becoming more important not to rely on state support alone, but to establish a mix of public and private social insurance.

Housing Market and Housing Policy

The percentage of home ownership on both the German and Dutch housing markets is relatively small by EU standards (See Table 2). In fact, in Germany it is the lowest in the EU; staying almost constant at around 40 per cent since 1945. In the Netherlands, on the other hand, home ownership has increased considerably in recent decades, with owner-occupied dwellings rising from 28 per cent of the housing stock in 1947 to 54 per cent in 2004.

The Alternative to Home Ownership: the Rented Sector

After World War II, the shortage of housing was resolved in both countries by government incentives to stimulate production in the rented sector. In Germany the emphasis was on fiscal subsidies to stimulate private building activities. This led mainly to the construction of private rented dwellings. Currently, around 53 per cent of the total

Table 2. Tenure structure (per cent of total housing stock)

	Owner-occupied		Development of the home ownership rate	Private rental (2005)	Social rental (2005)
	1950	2005			
Germany	39	42	Stable	53	5
The Netherlands	29	54	Growth	11	35

Source: Elsinga & Toussaint (2005b).

housing stock is in the private rented sector. Housing co-operatives (which also became private landlords during deregulation) and commercial and public investors make up the remaining 5 per cent (Helbrecht & Tegeder, 2005a). The Dutch government tackled the shortage by stimulating mass construction projects by housing associations and local housing authorities, which, in turn, resulted in a large social rented sector. The social rented dwellings are provided by housing associations – since deregulation, private organizations with special legal status conferred by the Housing Act. The private rented sector is concentrated in the larger cities and consists of small private landlords and institutional investors such as pension funds and insurance companies (Elsinga & Toussaint, 2005a).

Both countries stand out in the EU, with governments that provide housing allowances, rent regulation and tenant protection in both the private and the social rented sector (Elsinga *et al.*, 2006). The German government passed a Tenant's Protection Act in 1971, which was intended to protect tenants against eviction. In addition, an index of the average rent level was introduced (*Mietpreisspiegel*), which is constantly modified and is still in use today (Helbrecht & Tegeder, 2005a). In the Netherlands, rented dwellings with monthly rents of up to 605 euros are subject to rent regulation. Only 5 per cent of the rental stock is exempt. Recently, this policy has been a topic of political debate. The Minister of Housing introduced a new rent policy in 2006, which aimed to increase the non-regulated part of the market to 25 per cent and to ease the regulation still further in the regulated part of the market (Elsinga & Toussaint, 2005a). The new Dutch government now decided not to implement this new rent policy; yet, it was an important issue at the time of the interviews and may have increased tenant insecurity and influenced the home owner's individual perception of security.

Home Ownership: House Prices and Policy

In the early 1980s, the Dutch experienced a house price bust; thereafter, until the 1990s, house prices increased steadily until they seemed to explode towards the end of the century. In Germany, house prices increased more moderately. The dynamics of the housing market in Germany differ fundamentally according to the region. High-price regions are the selective agglomeration areas in the south, followed by other agglomeration areas in the north. Low-price areas are located mainly in the eastern parts of the country. Table 3 shows that, in real terms, house-price developments in Germany and the Netherlands were rather different in 2000–2003: prices decreased by 1.1 per cent in Germany compared with an increase of 3.2 per cent in the Netherlands. In 2002, the share of vacant average dwellings in Germany was 8.2 per cent, compared with 2.2 per cent in the Netherlands (*Housing Statistics*, 2004).

The government in both countries has promoted home ownership from the 1950s onwards (Kloth, 2005, p. 189; Behring & Helbrecht, 2002, p. 117 ff; Elsinga, 1995, p. 65). Although there was strong support in the Netherlands for retaining a large social rented sector, the aim to increase home ownership became more important

Table 3. House-price developments: volatility in the long term and in recent years (real terms according to country)

	Average change 1970–2003	Average change 2000–2003
Germany	3.1	–1.1
The Netherlands	2.8	3.2

Source: Horsewood & Neuteboom (2006).

over the decades. Fiscal policy and a mortgage guarantee system are the main factors that impact on the housing market and tenure choice. The tax authority sees an owner-occupied dwelling as an investment, which implies that interest is deductible and imputed rent is taxed (see Haffner, 2002). In general, this means that the Dutch get a considerable share of their monthly interest payments back. Tax relief is seen as the main financial incentive to increase home ownership. Fiscal policy and, particularly, the calculation of imputed rent have changed many times, but have never been abolished; however, the fiscal treatment of owner-occupied dwellings is still in the political arena.

Further, the mortgage guarantee, which was launched in 1956, still plays a major role in making home ownership accessible to low-income groups. This guarantee was privatized in 1995 and is now managed by the Home Ownership Fund. It enables people who fit the criteria to obtain a mortgage for all the costs of acquiring a dwelling, and therefore widens access to home ownership. Moreover, the lenders benefit through the ‘zero solvency’ which accompanies the guarantee and enables them to charge a lower interest rate of 0.2–0.5 per cent (Elsinga & Dol, 2003; Elsinga & Toussaint, 2005a).

In Germany, with a traditionally strong rented sector, the national financial institutions and the fiscal system contribute directly to the low home ownership rates (Helbrecht & Smauß, 2003, p. 28). State subsidies have been cut in the past few years, but there are still diverse small promotional programmes to encourage private households to become home owners, most of them left over from the post-war housing shortage. Until 2005, the highest promotional programme was the *Eigenheimzulage*: a government grant, allocated directly to first-time buyers. Throughout an eight-year period the German government paid home owners 1 per cent of the construction costs of the property plus 800 euros for each child every year. The *Eigenheimzulage* might go some way to explaining why most Germans tend to buy a dwelling only once, as it was a once-in-a-lifetime provision. The new German government abolished the *Eigenheimzulage* in autumn 2005 and is now subsidizing contract saving for home ownership (*Bausparkassen*). Moreover, current and future home owners, depending on their income, can benefit from diverse government bonuses (*Wohnungsbauprämie* and *Arbeitsnehmersparzulage*) (Helbrecht & Tegeder, 2005a). These measures are still being heavily discussed.

Table 4. Housing market and housing policy

Type	Germany Private	Netherlands Social
Rented sector		
Position of tenants	Well protected, housing allowance, rent regulation and tenant protection	Well protected, housing allowance. However, tenant protection changes through rent regulation policy
Home ownership		
House price developments	Stable, decreasing moderately; large differences between regions	Crash early 80s; price explosion late 90s
Main government instruments	Grant for first-time buyers (<i>Eigenheimzulage</i>)*; subsidized savings	Fiscal treatment: tax relief; mortgage guarantee
Perception owner-occupied dwelling	Once-in-a-lifetime: best quality and quantity, high expectations	Housing career, steps on housing ladder

*Abolished in 2005.

Mortgage Market

With home ownership rates rising, the Dutch mortgage market has boomed in the past decade with outstanding mortgages rising over fivefold between 1991–2004. In Germany, mortgage finance has grown, especially in the 1990s, although the increases have been modest since then. The growth in the Netherlands can be attributed to the rising house prices, more generous mortgage terms and the strong demand for higher quality housing. In addition, a substantial amount has been lent to finance second homes, to refinance existing fixed-interest loans at lower mortgage rates, and to withdraw equity (Ball, 2005).

In Germany, commercial banks, savings banks, mortgage banks and institutions (*Bausparkassen*) are co-operating intensively on contract-saving. Whereas the mortgage loans are used mainly for building private rented apartments, the *Bausparkassen* are closely involved in financing self-occupied home ownership. Every month, people save money until it mounts up to a sum stipulated in a contract. Once the target has been reached, the *Bausparkasse* is committed to offer a below-market rate, fixed-interest mortgage. Participation in the *Bausparkasse* system is very common in Germany; around 70 per cent of home owners had a contract (Helbrecht & Tegeger, 2005a).

On balance, the maximum borrowing capacity of an average Dutch household has risen sharply. When accepting mortgage credit, mortgage banks evaluate the repayment capacity and integrity of their clients, together with the collateral and security for the interest and repayment obligations. They are willing to apply loan-to value (LTV)

Table 5. Lending practices

	Main lenders	Average LTV (new mortgage) loans in per cent	Type of mortgages	Per cent of owners with a mortgage	Per cent of arrears among home owning households
Germany	Bausparkassen Commercial banks Mortgage banks Savings banks	70	Repayment and endowment	47	2.6
Netherlands	Commercial banks Insurance companies	112	Savings and interest-only mortgages	88	0.8

Note: LTV = loan-to-value ratio.

Source: Combined report OSIS; MacLennan *et al.* (1998).

ratios of over 100 per cent. In addition, the fiscal benefits of home ownership enhance the appeal of a high mortgage. Mortgage lenders take these benefits into account. Accordingly, Dutch lending practices are radically different from German lending practices (see Table 5). German mortgage-providers grant credit only if the applicants can provide at least 20–30 per cent of the amount with their own capital. Home ownership in Germany is therefore much more difficult for younger households, whose financial situation is usually less settled. As a consequence, the average age of first-time buyers in Germany is higher than in the Netherlands (Mulder & Wagner, 1998).

Perceptions of Financial (in)Security and Home Ownership

It emerged from the interviews that feelings of financial security and insecurity were primarily related to the level of income. The home owner's first financial concern was inability to afford the monthly mortgage payments. Besides being able to pay the mortgage every month, a higher income means more scope to save money for emergencies. In both countries the majority of the interviewees said that they felt reasonably secure about their income level. However, this needs to be placed in perspective. Thinking about risks is an unpleasant activity, so perhaps those who seem to be most at risk try to ignore the prospect as part of a survival strategy. However, low-income households did point out that they found it difficult to save money and would rather spend it on other things than insurance. Further, people who had experienced financial hardship through unemployment or a fall in house prices, either personally or in their immediate environment, appeared to be more aware of risks.

Besides differences between groups of people, we found differences in the way in which German and Dutch interviewees perceived security and insecurity (see Table 6).

We shall devote the rest of this section to describing these differences and illustrate them with some quotes from the interviewees. The differences reflect to a great extent the differences in the institutional context in the two countries.

Becoming a Home Owner and Financial Resources

Both the German and Dutch interviewees explained that they bought a dwelling when they believed that their job and their relationship were stable. A stable job and relationship were clearly prerequisites for purchasing a home. However, this notion seemed to have evolved differently in each country.

The interviewees were asked to respond to a case with the following information:

A young man and woman, both still living with their parents, want to form a household and ask your advice on whether to buy or rent a house. The woman has a secure job in a government/municipal office but the man is in less secure employment and has had a string of temporary jobs, although some have lasted as long as a year. What would you advise them to do and why?

In Germany most interviewees advised renting. They felt that more stability was required for home ownership (see quotation below). In the Netherlands, some interviewees adjusted their view when advising young entrants on the housing market:

As long as he's earning money it doesn't matter whether the job is permanent or not. [. . .] You can always find a job if you're willing to work. I don't think that a secure job should be a condition for buying a house. The banks want it, but if you can show that you have always found yourself a job, what does it matter if there are no permanent positions?

(Home owner, Female, 32, the Netherlands)

According to others, the couple should not worry too much; the financial situation will sort itself out in the long run:

You worry, especially in a situation like this, that you can't cope with the payments. I know that from my own experience. I thought that's far too much, far too expensive, impossible, and then it always turned out . . . well, maybe we were lucky . . . better than you expected. You see things far worse than they are. Once you live there, you get pleasure from your home. A lot of things just fall into place. That's what I think.

(Home owner, Male, 49, the Netherlands)

This advice was often underpinned with the argument that young people cannot find an appropriate and affordable dwelling in the rented sector. The Dutch social housing sector is considered inaccessible and the private rented sector too expensive.

The Dutch interviewees explained that the monthly living expenses are lower when people buy a property. Consequently, they adjusted their views about the importance of certainties like a steady job and stable relationship. Remarkably, the mortgage guarantee was not explicitly mentioned in this context, neither were the fiscal aspects of home ownership in the Netherlands. Moreover, the Dutch interviewees did not mention concerns about the size of the mortgages of first-time buyers. Compared with the Germans, the Dutch have very high loan-to-value rates, some over 100 per cent. The Dutch interviewees seemed to have faith in a favourable development in house prices and income security for young people. Most of them supported the government's ideas on income security and agreed that people are able to take responsibility and have the opportunities and capability to make money. The idea of income security among young people contrasts sharply with the unemployment figures in this group (see above).

The German interviewees considered renting as the most appropriate type of tenure for young people. And, anyway, renting offers the scope to establish the financial resources required for home ownership. Young Germans who leave the parental home rent a dwelling, save money, get a secure relationship and job, and finally when all the demands are met, they enter home ownership at an older age than their Dutch counterparts (see also Mulder & Wagner, 1998):

Of course it's a question of how rich they are. It's understandable that they want to move out, but with only one person in a secure job, I wouldn't buy a flat or house. They should wait and see how their living situation and their financial situation develop. If I didn't have an incredible inheritance or something like that, I wouldn't put all my money and resources into home ownership. I would rent and live and travel. That would definitely be more important to me than buying a home. Live a bit before getting settled.

(Home owner, Male, 58, Germany)

The German interviewees feel that renting a home is an appropriate first step on the housing market. They think it is good to have flexibility and money left for other purposes. Moreover, in contrast with the Dutch, the Germans have to save a deposit before they can buy a house and therefore attach more value to a secure and stable situation before taking the step.

Income Security

Although major changes are taking place in the labour market and the social security set-up in both countries, the German interviewees showed more concern about a stable income than the Dutch. This might be attributable to the higher unemployment rate in Germany (see section Labour Market). The Germans, in general, are more often faced with the consequences of unemployment and might, as a result, perceive this risk as

more likely than the Dutch interviewees. Further, it was clear from their responses that the German interviewees expected social benefits to be cut in the future, as the state would gradually withdraw from the welfare system. The younger people, for example, worried about the size of the state pension they would receive in the future (see also the fourth section). The greater worries of the German interviewees about welfare and pensions do seem to relate to the differences in the institutional contexts. As described earlier, the demographic changes in Germany are more threatening and the pension system is more vulnerable. Despite changes to the Dutch welfare system, the Dutch interviewees were more optimistic; they trusted the social security system, the employers and their own capabilities:

I don't look at unemployment as a risk. No, I have a secure job with a solid Collective Labour Agreement and that kind of thing, but I also have the idea that as long as I stay healthy, I can afford to earn a bit less without affecting my ability to pay the mortgage.

(Home owner, Female, 49, the Netherlands)

When asked about unemployment, the Dutch interviewees referred to the collective labour agreements and to the relatively generous unemployment benefit of 70 per cent (cf. 60 per cent in Germany) of the last earned income. Moreover, they pointed out that redundancy often comes with favourable conditions. They did not expect difficulties with the monthly mortgage payments when receiving unemployment benefit. The Dutch interviewees still seem to perceive social security as a solid safety net.

Immobility

Inflexibility or immobility was emphasized mainly by the German interviewees: both tenants and home owners. Inflexibility was not mentioned by Dutch home owners, although it was argued that some young people should stay in the rented sector until they have a settled job and relationship. German home owners might be more aware of the immobility associated with home ownership because most of them tend to perceive their current property as their final property (Helbrecht & Tegeder, 2005a). When a German household buys a dwelling it intends to stay in it for the rest of its life. In contrast, Dutch interviewees referred to steps in a housing career. It should be mentioned here that home ownership is often accompanied by parenthood. This in itself may make people feel more tied to their living environment. The difference in the feelings regarding immobility in the two countries does not relate to the level of the transaction costs (Germany 3.5 per cent; the Netherlands 8.1 per cent (Neuteboom, 2002).

Furthermore, some German interviewees feared that it could be difficult to sell the property.

Table 6. Differences in perceptions of financial (in)security and home ownership

Subject	German interviewees	Dutch interviewees
Becoming a home owner	<ul style="list-style-type: none"> – Later – ‘Buy once in a lifetime’ – Young people need flexibility and not an o-o dwelling – Incomes are insecure, high value attached to income security and 	<ul style="list-style-type: none"> – Sooner – Social rented sector inaccessible – Private rented sector is too expensive – Confident about income security
Income security	<ul style="list-style-type: none"> – Insecure – Insecure about social security system – Insecure about employment 	<ul style="list-style-type: none"> – Secure – Trust in social security system, and benefits of employers – Trust in employment
Immobility	<ul style="list-style-type: none"> – Home ownership means immobility, inflexibility – Fear selling difficulties 	<ul style="list-style-type: none"> – Steps in housing career

Sure, home ownership suggests a kind of security, but on the other hand, it also means quite a financial risk, because you can't sell a house as quickly, easily and securely as in the past or in other regions.

(Home owner, Male, 50, Germany)

Some German interviewees described difficulties in selling dwellings after the death of parents. As mentioned earlier, the vacancy rate in Germany is higher than in the Netherlands, although there are considerable regional differences. Thus, besides the idea that people buy a house once in a lifetime, the situation on the housing market contributes to the notion that home ownership is not compatible with a lifestyle that needs flexibility and mobility.

Perceptions of Mortgage Debts and Housing Equity

Besides considerations about income security and flexibility, an owner-occupied dwelling and its financial implications, in themselves, have an impact on feelings of security and insecurity. Interviewees from both countries mentioned that home ownership implies responsibility, which has a negative and positive side. On the one hand, it exerts negative pressure: some interviewees experienced the debt as a heavy burden. Every month a home owner must repay a small part of the loan plus interest. In both countries first-time buyers take up loans for as long as 30 years. On the other hand, in the long run the debt shrinks and the owner-occupier accumulates equity, which is seen as a nest-egg and thus provides a sense of security. It is conceivable that the differences between the two countries (see Table 7) stem from differences in house-price developments, fiscal policies and mortgage products.

Housing Equity

First, an owner-occupied dwelling is considered as a financial buffer, something for a rainy day, a nest-egg. In general, interviewees from both the Netherlands and Germany regarded their dwelling as a good and safe investment. This feeling seemed to be based on experience of rising house prices in both countries in the last decades (see the fifth section). However, in Germany in particular, the younger generation is pessimistic about future house-price developments. They expect demographic changes to cause the prices to fall: the population is shrinking and the housing supply is exceeding the demand. As mentioned above, some of the German interviewees had already experienced difficulties selling their parents' under-maintained homes. Consequently, some of them claimed that a rented dwelling is the simplest way of avoiding the risks of home ownership. The Dutch interviewees expected house prices to continue to rise and felt very secure about the equity, although they often said that they did not expect the prices to increase as rapidly as in the past decades. Some tenants remarked that they felt they had missed the boat; they thought that young people should buy because home ownership held certain advantages.

The German and the Dutch interviewees showed different attitudes towards mortgage debts. The Dutch found it completely natural that first-time buyers take out mortgages of over 100 per cent, whereas the German interviewees felt the pressure of saving for a deposit first and borrowed a maximum of 70–80 per cent of the value of the dwelling. Even then the mortgage was experienced as a burden. Further, the Dutch interviewees stated that it was unwise to pay off the full amount and favoured an interest-only mortgage for at least part of the debt. The difference is illustrated in the loan-to-value ratios and the percentages of home owners with a mortgage in Germany and the Netherlands.

One explanation for this difference may be found in the responses to the following case: 'A friend inherits 50 000 euros. She has a mortgage of 70 000 euros and expects to work for another 16 years. She asks your advice about what to do with the money. What would you advise her and why?' In general, the German interviewees believed that people should repay the mortgage while the Dutch thought the opposite:

Pay off the mortgage right away! Each repaid euro saves interest and compound interest. Only if she finds a capital investment, which offers her more interest than she pays now for her mortgage, would I tell her to invest. But that's impossible at the moment. No, each repaid euro is worth gold. I would always repay!

(Home owner, Female, 37, Germany)

Well, not for the mortgage! Put it in stocks and shares! I would invest it in stocks or have a nice holiday. I don't know what kind of person she is. Or

as a nest-egg, or something . . . I wouldn't repay the mortgage, that would be unfavourable for the deduction. And when she keeps working . . .

(Home owner, Male, 50, the Netherlands)

One advantage of home ownership and building up housing equity is the prospect of living rent-free in your old age or, in case of need, home owners can enhance their financial provision by selling up. Some German interviewees called their dwellings 'a pension in stone'. Especially young German interviewees felt insecure about the size of their future pensions and therefore attached value to this aspect of home ownership. Despite the reluctance to fully repay a mortgage, the Dutch interviewees too perceived living rent-free or at least with lower expenses in old age as better than tenancy.

Monthly Housing Expenses

Not only did home owning interviewees feel secure about their monthly housing expenses in old age, they also felt secure about their regular monthly housing expenses during the usual mortgage period. When the home owning interviewees compared their own situation with the situation of a tenant they felt that mortgage repayments were more stable and even cheaper. In the Netherlands, interviewees referred, primarily to these monthly housing expenses, as being far preferable to rent increases. The reason why the Dutch emphasized this aspect may be partly tied in with government plans to deregulate rents, which might trigger steep rises. However, the Dutch interviewees also described feelings of insecurity triggered by the current policy debate on whether to rescind tax relief on mortgage interest. They perceived this possible policy change as a risk which would push up the monthly housing expenditure and might put pressure on house prices.

As described earlier, the German interviewees felt it important to repay the mortgage, so they cut back on their spending (e.g. on leisure, holidays, car), especially those who had just become home owners. They wanted to reduce the monthly repayments. The released money could in turn be used for purposes for which it had been put on hold due to the high outstanding debts:

By now I think it's a good feeling, because I notice that the amount I pay to the bank every month, decreases every month. I didn't think of that before we owned our home. (. . .) We've also repaid a lot already. That also means freedom, because I have to pay less. Freedom to spend the money on other things.

(Home owner, Female, 41, Germany)

Table 7. Differences in the perception of (in)security of home ownership

Subject	German interviewees	Dutch interviewees
Housing equity – price developments	<ul style="list-style-type: none"> – Insecure – Experienced selling problems – Expect unfavourable population 	<ul style="list-style-type: none"> – Secure – No worries about selling – Tenants feel as if they have missed the boat
Housing equity – mortgage debt	<ul style="list-style-type: none"> – Repay as soon as possible – Having a loan and paying interest is expensive – Adjust lifestyle to repay – Debts of 70–80 per cent at most 	<ul style="list-style-type: none"> – Mortgage debt is encouraged with fiscal policy – Mortgage forms designed to delay repayment are most popular – High debts up to 112 per cent
Housing equity – living rent-free in old age	<ul style="list-style-type: none"> – Very important – ‘Pension in stone’ 	<ul style="list-style-type: none"> – An extra – Living rent-free is an advantage compared with tenancy
Monthly housing expenses	<ul style="list-style-type: none"> – Secure, decreasing 	<ul style="list-style-type: none"> – Secure, insecure, stable – Secure compared with insecurity of tenants due to rent deregulation – Insecure because of policy debate on tax deduction

Most Dutch interviewees did not experience lower monthly mortgage expenses; they had other types of mortgage products (savings and interest-only mortgages) than the German interviewees.

An important assumption that interviewees in both countries made is that interest rates will not affect their monthly expenses. To most of them this seemed a logical conclusion, as they had fixed-term interest rates. Recent experience of declining interest rates might also explain these feelings of confidence.

Conclusions

There are strong similarities in the trends to restructure the welfare system in the Netherlands and Germany: the size of state benefits is gradually being reduced, additional payments are being transferred to the individual and the criteria for claiming benefits are getting tougher. Judging by EU standards, however, both countries still grant benefits on a fairly generous level. The Netherlands is more flexible in meeting the pension challenges raised by an aging society. The German pension system is still awaiting efficient adaptation. There are huge differences in two key aspects of the institutional framework:

- The labour market in the Netherlands is developing more positively than in Germany. The unemployment rate is lower and fewer Dutch interviewees were

concerned about the risk of unemployment. They believed they would find a new job without too much trouble. The German interviewees expressed much more concern. The attitude towards debt might stem from the perceived insecurity in the labour force; German interviewees felt more pressure when taking on financial liabilities.

- Although both countries expect aging, the Dutch population is still on the increase whereas the German population has already begun to diminish. This will affect the development of the housing market. While house prices in the Netherlands rise – although at a slower rate than before – house prices in Germany are stagnating on average. One has to bear in mind, however, that the German housing market is extremely heterogeneous with a few high-price regions in the metropolitan areas and the south.

These two trends seem to mould the perception of housing-related security to a great extent. Both groups saw home ownership as a cornerstone for financial security in various ways. It provides security, as housing equity creates a nest-egg, a pension in stone, a possibility to live rent-free in old age and something to leave the children. However, the accumulation of housing equity appears to differ in the two countries. German interviewees wanted to pay off the mortgage as soon as possible, while Dutch interviewees planned a maximum mortgage for as long as possible because of tax benefits. To German households, paying off the mortgage and hence ‘being financially on the safe side’ seemed the best way of building housing equity, while for the Dutch, rising house prices were more important. This might explain why young households in the Netherlands are encouraged to buy as soon as possible and why German households are encouraged to wait and save the money for a deposit. The interviewees also expressed feelings of insecurity about their owner-occupied dwelling. German interviewees worried about house-price developments and the difficulties of selling the dwelling, while Dutch interviewees worried mainly about possible changes in the fiscal aspects of home ownership.

The impact of buying a home seems different in each country. In the Netherlands, it seems to be perceived a step in a housing career. In Germany most people buy a dwelling for life and therefore put it off until their household situation is more or less stable. Buying a home is perceived as the start of a new stage in life and the end of being mobile. Accordingly, buying is a very important event in Germany and is presumably treated with more caution than in the Netherlands. Moreover, people save and wait before buying. Buying in Germany seems therefore to be regarded as a sign of security.

The central hypothesis of this paper – that the German and Dutch interviewees perceive security/insecurity of home ownership in different ways – has been affirmed. Feelings of security and insecurity regarding home ownership and income differ consistently between these two countries. These differences can be largely explained by different national contexts. Differences in perception can be explained by differences in the labour, housing and mortgage markets in both countries and how people

expect them to develop in the future. One very important development that affects the market as well as government policy in Germany is the declining population. Potential changes in the social security and pension system and housing policy also make households in both countries feel insecure – but to different degrees – because they do not know what will happen.

Different perceptions of (in)security of home ownership can, to a large extent, be explained by differences in the context. However, this leaves unanswered the question of whether ‘culture’ matters; or, in other words, if the perceptions of German and Dutch households would still be different under the same institutional circumstances.

Note

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